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March 28, 2005

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> and Constitution Avenue, NW  
Washington, DC 20551

**Re: Docket No. R-1217**

Dear Ms. Johnson:

Thank you for the opportunity to provide comments on the advance notice of proposed rulemaking (ANPR) regarding a review of the open-end (revolving) credit rules of the Federal Reserve Board's (the Fed) Regulation Z, which implements the Truth in Lending Act (TILA).

FMI<sup>footnote1</sup> members are very supportive of the purpose of TILA -- ensuring that consumers can make informed decisions about the use of credit and the cost of credit. We find the current review of Regulation Z to be a timely one. As the Fed noted in the supplementary information accompanying the ANPR, consumer's use of open-end credit has changed dramatically with "credit cards serving as a substitute for cash and checks for millions of routine purchases . . ." Again, from the Fed's own supplementary information, "In 2001, 73 percent of households had at least one general purpose card with a revolving feature, compared to 43 percent in 1983." Clearly, this change has had a major impact on society and should have an equally strong impact on the role of the Federal Reserve in the oversight of this new "currency."

We urge the Federal Reserve in your Reg. Z review to (1) look closely at the impact this significant shift has had and will have in the future on our nation's monetary policy and consumer prices; (2) ensure the transparency/disclosure of all fees consumers pay for credit including those like the interchange fee that are not currently transparent to

<sup>footnote1</sup> FMI conducts programs in research, education, industry relations and public affairs on behalf of its 2,300 member companies — food retailers and wholesalers — in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores with a combined annual sales volume of \$340 billion — three-quarters of all food retail store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from 60 countries.

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consumers; and (3) enhance the Board's oversight and regulatory purview of open-end credit and other electronic payment transactions in a fashion similar to the way the Fed has maintained a cost-effective and efficient checking system for the past 91 years.

"The 2004 Federal Reserve Payments Study" indicates that electronic payments have exceeded check payments for the first time with a high rate of annualized growth expected to continue. The public policy, monetary policy and societal issues raised by this fundamental change in payment methods are significant and must be studied fully. They cannot be ignored. For instance, since 1994, when food retailers first experienced widespread acceptance of open-end credit cards for payment, volume on electronic payments has grown from less than 5% of transactions to roughly 50% of transactions. Interchange fees during this same period have more than tripled for debit cards and are up more than 60% for credit transactions. In other words, despite the fact that the volume of electronic payments has grown exponentially, interchange rates and levels have increased, contrary to our experience with just about every other type of new technology. This means that merchants are receiving an ever-decreasing amount from every dollar they collect when consumers purchase products. At the same time, the percent of income that is spent on food consumed at home has decreased from 6.6% in 1994 to 6.1% in 2004 and the net profit margin for our industry has remained constant at about 1%.

Our members are proud of their record of providing our nation's consumers with a wide variety of healthy, safe food at the lowest prices in the world. We believe that increasing payment costs need to be addressed to assure that this continues.

Thank you for the opportunity to provide comments on this important issue.

Sincerely,

George Green  
Vice President  
General Counsel